



**METROLINK®**

**Southern California Regional Rail Authority (SCRRA)**

**Report on the Compliance with the Requirements of the  
Metrolink Program by SCRRA  
For the Year Ended June 30, 2016**

**under Memorandum of Understanding (MOU) No. P0SCRRA26  
with the Los Angeles County Metropolitan Transportation Authority  
(LACMTA)**

**Southern California Regional Rail Authority (SCRRA)**

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Metrolink Program by SCRRA  
*For the Year Ended June 30, 2016***

**under Memorandum of Understanding (MOU) No. P0SCRRA26  
with the Los Angeles County Metropolitan Transportation Authority  
(LACMTA)**

	<u>PAGE</u>
<b>FINANCIAL SECTION</b>	
Independent Accountant's Report	1
Schedule of Subsidy Allocation by County	3
Notes to Schedule of Subsidy Allocation by County	4
<b>EXHIBITS</b>	
Exhibit I: Reconciliation of the Schedule of Subsidy Allocation to CAFR	6
Exhibit II: Methods of Allocation Used and the Types of Revenues and Expenses	7
Exhibit III: Line Item Allocation Methodology	8
Exhibit IV: Schedule of Funds Received for Proposition C 10% and Measure R 3%	9
Exhibit V: Comparative Analysis of Unearned Revenue	10
Exhibit VI: Schedule of LACMTA's Contribution to the Self Insurance Reserve	11
Exhibit VII: Schedule of LACMTA's Allocation of Revenue from Right of Way – Security Cost	12
<b>COMPLIANCE MATRIX</b>	13
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	15
<b>EXIT CONFERENCE</b>	19

**FINANCIAL SECTION**

## **Independent Accountant's Report**

### **To the Board of Directors of the Los Angeles County Metropolitan Transportation Authority (LACMTA)**

#### **Report on the Examination of Metrolink Program by SCRRA**

We have examined the Southern California Regional Rail Authority's (SCRRA) compliance with the following requirements identified in the Memorandum of Understanding (MOU) No. P0SCRRA26 between SCRRA and the Los Angeles County Metropolitan Transportation Authority (LACMTA), the SCRRA Adopted Budget for the year ended 2015/2016 and other guidelines issued related to the SCRRA Program (Guidelines). These requirements are applicable to SCRRA's allocation of revenues and expenditures to LACMTA for the year ended June 30, 2016:

1. LACMTA's share in the Schedule of Subsidy Allocation by County is free of material discrepancies.
2. The total revenues and expenditures shown in the Schedule of Subsidy Allocation by County provided by SCRRA are in agreement, in all material respects, with the SCRRA's Comprehensive Annual Financial Report (CAFR). (See Exhibit I)
3. The allocation methods used by SCRRA to allocate revenues and expenditures are in conformance with the allocation methods adopted by the joint authorities and are applied consistently to allocate revenues and expenses. (See Exhibits II and III)
4. The Proposition C 10% and Measure R 3% funds received from LACMTA are recorded in SCRRA's books. (see Exhibit IV)
5. The Proposition C 10% and Measure R 3% funds received are expended for purposes identified in the SCRRA's Annual Work Program, capital grants, other operating assistance, adopted language MOU(s) and the SCRRA adopted budget.
6. LACMTA's contribution to the Self Insurance Reserve (SIR) was made in accordance with the appropriate member agency allocation formula, and that claims against the SIR were appropriate uses of funds. (See Exhibit VI)
7. SCRRA's third party participation contracts do not materially impact LACMTA's share of revenues and expenditures. (See Exhibit I)
8. SCRRA complied with all applicable ordinances.



### ***Management's Responsibility***

Management of SCRRA is responsible for compliance with these requirements, as well as the compliance requirements shown in the Compliance Matrix.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on SCRRA's compliance based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting SCRRA's compliance and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on SCRRA's compliance with specified requirements.

### ***Opinion***

In our opinion, SCRRA complied, in all material respects, with the aforementioned requirements established in the Guidelines, for the year ended June 30, 2016.

### ***Other matters***

The results of our examination procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Guidelines and which are described in the accompanying Compliance Matrix. Our opinion is not modified with respect to these matters.

Responses by the SCRRA to the noncompliance findings identified in our examination are described in the accompanying Compliance Matrix. The SCRRA's responses were not subjected to the procedures applied in the examination of compliance, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of SCRRA and LACMTA and is not intended to be and should not be used by anyone other than these specified parties.

*Vaqueria & Company* LLP

Los Angeles, California  
April 18, 2017

**Southern California Regional Rail Authority (SCRRRA)**  
**MOU No. P0SCRRRA26**  
**Schedule of Subsidy Allocation by County**  
**(Dollar Amounts in Thousands)**  
**Year ended June 30, 2016**

	<u>TOTAL</u>	<u>LACMTA</u>	<u>OCTA</u>	<u>RCTC</u>	<u>SANBAG</u>	<u>VCTC</u>
<b>OPERATING REVENUES</b>						
Fares	\$ 84,523	\$ 42,380	\$ 22,298	\$ 6,459	\$ 10,890	\$ 2,496
Dispatching	2,120	1,129	682	5	54	250
Maintenance-of-Way	12,434	7,908	2,468	53	1,511	494
Miscellaneous	430	198	92	54	61	25
<b>Total Operating Revenues</b>	<u>99,507</u>	<u>51,615</u>	<u>25,540</u>	<u>6,571</u>	<u>12,516</u>	<u>3,265</u>
<b>OPERATING EXPENSES</b>						
Train operations and services	128,222	66,074	30,505	11,876	14,198	5,569
Maintenance-of-Way	39,453	22,126	7,947	1,870	4,980	2,530
Personal liability/property damage	15,909	8,472	3,746	1,181	1,894	616
Administration and services	32,698	15,868	5,790	4,653	3,310	3,077
<b>Total Operating Expenses</b>	<u>216,282</u>	<u>112,540</u>	<u>47,988</u>	<u>19,580</u>	<u>24,382</u>	<u>11,792</u>
<b>OPERATING LOSS</b>	<u>(116,775)</u>	<u>(60,925)</u>	<u>(22,448)</u>	<u>(13,009)</u>	<u>(11,866)</u>	<u>(8,527)</u>
<b>FY2015/2016 MEMBER SUBSIDY INVOICED</b>	<u>127,082</u>	<u>65,482</u>	<u>26,093</u>	<u>13,564</u>	<u>12,848</u>	<u>9,095</u>
<b>SURPLUS - BEFORE BNSF LEASE</b>	<u>10,307</u>	<u>4,557</u>	<u>3,645</u>	<u>555</u>	<u>982</u>	<u>568</u>
Member BNSF lease subsidies	11,545	6,314	2,434	1,023	1,306	468
BNSF leased locomotive costs	(10,398)	(5,544)	(2,526)	(790)	(1,193)	(345)
<b>SURPLUS/(DEFICIT) - BNSF LEASE</b>	<u>1,147</u>	<u>770</u>	<u>(92)</u>	<u>233</u>	<u>113</u>	<u>123</u>
<b>NET SURPLUS</b>	<u>\$ 11,454</u>	<u>\$ 5,327</u>	<u>\$ 3,553</u>	<u>\$ 788</u>	<u>\$ 1,095</u>	<u>\$ 691</u>

*See notes to Schedule of Subsidy Allocation by County.*

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

SCRRA is an independent entity created in August 1991 through a joint exercise of powers agreement (JPA). SCRRA began operating the “Metrolink” regional commuter rail system in October 1992. The member agencies of the JPA are (1) Los Angeles County Metropolitan Transportation Authority (LACMTA), (2) Orange County Transportation Authority (OCTA), (3) Riverside County Transportation Commission (RCTC), San Bernardino Associated Governments (SANBAG), and (4) Ventura County Transportation Commission (VCTC). The member agencies acquired the rail network in existence at the time the JPA was established for use in Metrolink’s commuter rail operations. This railroad network is not included as part of SCRRA’s railroad network capital assets. The member agencies retain title to and ownership of those assets. As part of the JPA, SCRRA is responsible for the related maintenance and operation of members’ assets and rail right-of-way used in operations.

In addition, certain members retain responsibility to maintain segments of their railroad network. The Metrolink railroad network consists of capital assets created as a result of new capital construction and major capital improvement projects. Currently, there are 534 route miles with 59 stations in the Metrolink system throughout Los Angeles, Orange, Riverside, San Bernardino, Ventura, and San Diego counties.

SCRRA is governed by a Board of Directors comprised of 11 members appointed by the voting members of the JPA. The member agencies with their respective number of votes are as follows:

Los Angeles County Metropolitan Transportation Authority (LACMTA)	4
Orange County Transportation Authority (OCTA)	2
Riverside County Transportation Commission (RCTC)	2
San Bernardino Associated Governments (SANBAG)	2
Ventura County Transportation Commission (VCTC)	1

SCRRA is not considered to be a component unit of any other reporting entity.

**Basis of Accounting**

Revenues and expenditures are accounted for using the accrual basis of accounting. Revenues from grants are recognized when expenditures are incurred. Expenditures are generally recognized when the related liabilities are incurred.

**Revenue Recognition**

SCRRA receives approximately half of its funding from fares and other operating revenues, and the balance of its funding comes from its member agencies. The majority of sources for transportation funds in these counties are local sales taxes (with the exception of Ventura County), State Rail Bond funds, State Transit Assistance funds, State Highway Account funds, State Transit Capital Improvement funds, and Federal Transit Administration Capital funds.



**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA26**  
**Notes to Schedule of Subsidy Allocation by County**  
**Year ended June 30, 2016**

**NOTE 2 MEMORANDUM OF UNDERSTANDING**

On June 25, 2015, SCRRA (grantee) and the Los Angeles County Metropolitan Transportation Authority (LACMTA) (grantor) entered into a Memorandum of Understanding (MOU No. P0SCRRA26), which is effective through June 30, 2016, for the purpose of providing funding to SCRRA during the Fiscal Year 2015/2016 for LACMTA's financial commitments as required by the JPA.

In accordance with the MOU No. P0SCRRA26, LACMTA shall make available to SCRRA the following allocation of funds ("Funds") for the LACMTA's share of the Fiscal Year 2015/2016 Budget in the amounts of:

- a. \$68,781,000 for rail operations, using new Proposition 10% funds paid according to the following schedule, unless altered by mutual written agreement:

July 15, 2015	\$ 21,514,551
October 1, 2015	14,655,483
January 1, 2016	14,655,483
April 1, 2016	<u>17,955,483</u>
Total \$	<u><u>68,781,000</u></u>

- b. \$2,578,128 for right-of-way security, using new Proposition C 10% funds.  
c. \$475,000 for Capital Project PSRs using new Proposition C 10% funds.  
d. \$100,000 for one-time special events, using new Proposition C 10% funds.

The Fiscal Year 2015/2016 member subsidy invoiced to LACMTA of \$65.5 million and BNSF lease subsidy of \$6.3 million reported in the Schedule of Subsidy Allocation by County is part of the above funds allocated to SCRRA.

Details of the receipts and uses of funds for the year ended June 30, 2016 is as follows:

<u>Fund</u>	<u>Description</u>	<u>[a]</u> <u>Approved</u> <u>Funding</u>	<u>[b]</u> <u>Receipts</u>	<u>[=a - b]</u> <u>Funding</u> <u>Balance</u>	<u>[c]</u> <u>Expenditures</u>	<u>[=b - c]</u> <u>Surplus/</u> <u>(Deficit)</u>
Prop C 10%	Operations	\$ 68,781,000	\$ 68,781,000	\$ -	\$ 71,795,790	\$ (3,014,790) *
Prop C 10%	Right of Way	2,578,128	2,578,128	-	2,237,060	341,068 **
Prop C 10%	Capital Project PSRs	475,000	-	475,000	-	-
Prop C 10%	Special Event	100,000	-	100,000	19,953	(19,953) ***
		<u>\$ 71,934,128</u>	<u>\$ 71,359,128</u>	<u>\$ 575,000</u>	<u>\$ 74,052,803</u>	<u>\$ (2,693,675)</u>

\* Application of unused funding/surplus from prior years' grants.

\*\* See Exhibit VII.

\*\*\* \$15,549 was billed and uncollected as of June 30, 2016. The remaining amount of \$4,404 will be billed in FY 2016/17.

Note: No Measure R funding under P0SCRRA26.

## EXHIBITS

**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA26**  
**Reconciliation of the Schedule of Subsidy Allocation to CAFR**  
**(Dollar Amounts in Thousands)**  
**Year ended June 30, 2016**

	<u>Revenues</u>	<u>Expenses</u>
Per Schedule of Subsidy Allocation	\$ 99,507	\$ 226,680
 <u>Reconciling items:</u>		
OPERATING:		
Fare Revenues	(18)	-
Dispatching	74	-
Maintenance of Way	3	105
Train Operations	-	992
Third party agreements <sup>{1}</sup>	26,951	24,864
Rehabilitation and renovation - capital <sup>{1}</sup>	-	25,406
Miscellaneous	139	-
Public liability and property damage	576	1,287
Depreciation <sup>{1}</sup>	-	43,758
(Benefit) provision for claims, judgements, and other	-	(5,199)
Per CAFR - Operating Revenues and Expenses	<u>\$ 127,232</u>	<u>\$ 317,893</u>

## Notes:

<sup>{1}</sup> Not allocated to the members

**Note:**

Revenues and expenses in the Schedule of Subsidy Allocation by County do not include revenues and expenses relating to Third-party participation agreements.

Third-party participation agreements are items such as charter train services, construction of major capital facilities on behalf of third parties, and flagging personnel provided by SCRRA for the safety of non-SCRRA personnel accessing the rail right-of-way. SCRRA's policy regarding third-party agreements is that they should be self-supporting. Projects are billed up-front to third parties and a reconciliation of actual costs against payments are reconciled at project completion. The excess of expenses over revenue is attributed by SCRRA to advance collections in prior years as well as for billing adjustments related to overhead.

**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA26**  
**Methods of Allocation Used and the Types of Revenues and Expenses**  
**Year ended June 30, 2016**

Budget Item	FY07-08 Agreed Allocation
Train Mile Allocation	
Train Operations	Train Miles - Current
Fuel	Train Miles - Current
Operating Contingency	Train Miles - Current
Direct to Line Segments/Territories	
Rail Agreements	Direct to Lines/Then to Members
MOW - Line Segments	Train Miles of Service on Territory
MOW - Extra-Ordinary maintenance	Train Miles of Service on Territory
Holiday Trains	Direct to Lines/Then to Members
Amtrak Transfers	Direct to Lines/Then to Members
Route Miles Dispatched	
Dispatching	Route Miles Dispatched
Ridership/Revenue Distributions	
Transfers to other Operators	Ridership/Revenue Distribution
Supplemental Additional Security	Ridership/Revenue Distribution
Base Allocation	
Equipment Maintenance	75% Train Miles - Lagged/25% Unduplicated Stations
Operating Contingency (Bombardier)	Train Miles - Lagged
Non-Scheduled Rolling Stock Repairs	Train Miles - Lagged
Operating Facilities Maintenance	Train Miles - Lagged
Other Operating Train Services	Unduplicated Route Miles (excl SD Co)
Security - Sheriff	Train Miles - Lagged
Security - Guards	Unduplicated Route Miles (excl SD Co)
Public Safety Program	Unduplicated Route Miles (excl SD Co)
Utilities/Leases	Unduplicated Route Miles (excl SD Co)
Passenger Relations - Call Boxes	Unduplicated Stations
Contingency (Non-Train Operating)	Unduplicated Route Miles (excl SD Co)
TVM Maintenance/Revenue Collection	TVMs
Station Maintenance - Non-Union Station	Unduplicated Stations
Station Maintenance - Union Station	Revenue Moves thru LAUS
Passenger Service Representatives	Unduplicated Route Miles (excl SD Co)
Passenger Relations - Call Center/Other	Ridership Distribution Lagged
Marketing/Market Research	Ridership Distribution Lagged
Media & External communications	Unduplicated Route Miles (excl SD Co)
Liability/Property/Auto	Train Miles - Lagged
Claims	Train Miles - Lagged
Claims Administration	Train Miles - Lagged
Salaries & Fringe Benefits	Unduplicated Route Miles (excl SD Co)
Non- Labor Costs	Unduplicated Route Miles (excl SD Co)
Allocated Overhead	Unduplicated Route Miles (excl SD Co)
Services	Unduplicated Route Miles (excl SD Co)

**Southern California Regional Rail Authority (SCRRRA)**

**MOU No. P0SCRRRA26**

**Line Item Allocation Methodology**

**Year ended June 30, 2016**

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The Fiscal Year 2015-2016 Budget was created using the Line Item Allocation Methodology outlined in Exhibit II. The sum of all individual line item allocations resulted in a total expense bottom line percentage allocation rate.

**Southern California Regional Rail Authority (SCRRRA)**  
**MOU No. P0SCRRRA26**  
**Schedule of Funds Received for Proposition C 10% and Measure R 3%**  
**(Dollar Amounts in Thousands)**  
**Year ended June 30, 2016**

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Proposition C 10% Fund	
P0SCRRRA21	\$ 1,266
P0SCRRRA22	911
P0SCRRRA23	2,263
P0SCRRRA24	4,803
P0SCRRRA25	7,129
P0SCRRRA26	<u>71,359</u>
Total	<u>87,731</u>
Measure R 3% Fund	
MRSCCRA01	4,204
MRSCCRA02	120
MRSCCRA07	2,270
MRSCCRA10	17
MRSCCRA11	18
MRSCCRA12	157
MRROTEMSET	4,496
SCRRAADV	464
SR14	316
MRBRANFORD	<u>990</u>
Total	<u>13,052</u>
Total funds received	<u>\$ 100,783</u>

**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA26**  
**Comparative Analysis of Unearned Revenue**  
**(Dollar Amounts in Thousands)**  
**Year ended June 30, 2016**

	<b>LACMTA</b>	<b>OCTA</b>	<b>RCTC</b>	<b>SANBAG</b>	<b>VCTC</b>	<b>OTHER</b>	<b>TOTAL</b>
<b>Unearned revenue at June 30, 2014</b>	<b>\$ 11,661</b>	<b>\$ 6,102</b>	<b>\$ 1,358</b>	<b>\$ 4,315</b>	<b>\$ (10,875)</b>	<b>\$ 34,030</b>	<b>\$ 46,591</b>
Subsidies invoices:							
Operating	49,166	17,991	7,984	9,540	1,727	-	86,408
Public liability and property damage	9,431	4,197	1,263	2,201	586	-	17,678
Capital	41	-	-	27	150	22,869	23,087
Other	-	-	-	-	-	1,424	1,424
Subsidies recognized							
Operating	(50,705)	(18,519)	(8,278)	(9,662)	(7,469)	-	(94,633)
Public liability and property damage	(8,325)	(3,733)	(1,109)	(1,944)	(514)	-	(15,625)
Capital	(925)	(110)	(783)	(592)	(192)	(12,705)	(15,307)
Other	-	-	-	-	-	(7,629)	(7,629)
Uses of Operating Surplus	-	(120)	-	-	-	-	(120)
Interest Allocation	7	-	-	1	1	85	94
Adjustments:							
FY 2015 VCTC/Metro Swap	-	-	-	-	1,872	-	1,872
<b>Unearned revenue at June 30, 2015</b>	<b>\$ 10,351</b>	<b>\$ 5,808</b>	<b>\$ 435</b>	<b>\$ 3,886</b>	<b>\$ (14,714)</b>	<b>\$ 38,074</b>	<b>\$ 43,840</b>
Subsidies invoices:							
Operating	62,169	24,270	13,244	12,001	3,062	-	114,746
Public liability and property damage	9,627	4,257	1,342	2,153	700	-	18,079
Capital	-	31	-	-	-	2,538	2,569
Subsidies recognized							
Operating	(57,997)	(21,228)	(12,618)	(11,164)	(8,257)	-	(111,264)
Public liability and property damage	(8,472)	(3,746)	(1,181)	(1,894)	(616)	-	(15,909)
Capital	(1,385)	(145)	-	(124)	(26)	(962)	(2,642)
Other	-	-	-	-	-	(899)	(899)
Uses of Operating Surplus	(3,014)	(2,002)	-	-	-	-	(5,016)
Interest Allocation	8	-	-	1	1	155	165
Adjustments:							
FY 2015 VCTC/Metro Swap	-	-	-	-	10,159	-	10,159
<b>Unearned revenue at June 30, 2016</b>	<b>\$ 11,287</b>	<b>\$ 7,245</b>	<b>\$ 1,222</b>	<b>\$ 4,859</b>	<b>\$ (9,691)</b>	<b>\$ 38,906</b>	<b>\$ 53,828</b>

Note: See Finding #2016-001.

**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA26**  
**Schedule of Contribution to the Self-Insurance Reserve**  
**(Dollar Amounts in Thousands)**  
**Year ended June 30, 2016**

	<u>TOTAL</u>	<u>LACMTA</u>	<u>OCTA</u>	<u>RCTC</u>	<u>SANBAG</u>	<u>VCTC</u>
MEMBER INSURANCE SUBSIDY	\$ 18,079	\$ 9,627	\$ 4,257	\$ 1,343	\$ 2,152	\$ 700
INSURANCE EXPENSE (REVENUE)						
Liability/Property/Auto	11,633	6,195	2,739	864	1,385	450
Claims/SI	3,876	2,064	913	288	461	150
Claims Administration	421	224	99	31	50	17
PLPD Revenue	<u>(21)</u>	<u>(11)</u>	<u>(5)</u>	<u>(2)</u>	<u>(2)</u>	<u>(1)</u>
NET INSURANCE EXPENSE	<u>15,909</u>	<u>8,472</u>	<u>3,746</u>	<u>1,181</u>	<u>1,894</u>	<u>616</u>
SUPLUS	<u>\$ 2,170</u>	<u>\$ 1,155</u>	<u>\$ 511</u>	<u>\$ 162</u>	<u>\$ 258</u>	<u>\$ 84</u>

Note: See Finding #2016-001.



**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA26**  
**Schedule of LACMTA's Allocation of Revenue from Right of Way – Security Cost**  
**(Dollar Amounts in Thousands)**  
**Year ended June 30, 2016**

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Receipts from LACMTA for Right-of-Way Security	
July 15, 2015	\$ 644
October 15, 2015	644
January 1, 2016	645
April 1, 2016	645
Total receipts	<u>2,578</u>
Right-of-Way Security Expenditures	
Quarter 1	\$ 559
Quarter 2	559
Quarter 3	560
Quarter 4	559
Total expenditures	<u>2,237</u>
Surplus	<u>\$ 341</u>

## COMPLIANCE MATRIX

**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA26**  
**Compliance Matrix**  
**Year ended June 30, 2016**

Compliance Requirement	In Compliance			Questioned Costs	If no, provided details and management response
	Yes	No	N/A		
1. SCRRA submitted its FY 2015-2016 Preliminary Budget on April 17, 2015, and their revised budget on May 28, 2015, to the LACMTA and other member agencies of the SCRRA.	X				
2. SCRRA provides a full accounting of its Capital and State of Good Repair needs to include the following pursuant to LACMTA June 25, 2015 Board Motion 6.1:  a. A current inventory and status of all New Capital, Capital Rehabilitation, and State of Good Repair projects; b. New projects over the next five fiscal years (through FY 2020); c. An inventory of all currently unfunded State of Good Repair and safety improvement needs for the Metrolink system within Los Angeles County. SCRRA is to provide the aforementioned information to LACMTA by September 30, 2015.	X				
3. Right of Way security funds, not to exceed \$2,578,128, will be paid for additional right-of-way security ("ROW Security") on all LACMTA owned right-of-way upon which Metrolink service operates.	X				
4. SCRRA should provide the ROW Security to LACMTA through its contractor LASD.	X				
5. SCRRA shall ensure that LASD complies with all insurance requirements of the LASD/SCRRA contract. Further, SCRRA represents that it is self-insured to the extent required to cover its indemnification obligation.	X				

Southern California Regional Rail Authority (SCRRA)  
MOU No. P0SCRRA26  
Compliance Matrix  
Year ended June 30, 2016

Compliance Requirement	In Compliance			Questioned Costs	If no, provided details and management response
	Yes	No	N/A		
6. No FY 2015-16 LACMTA funds shall be used for previously funded projects except as provided in Article 6 of MOU No. P0SCRRA26.	X				
7. Modifications that do not materially affect the terms of this MOU, such as redistributing funds among existing budget line items or non-material schedule changes must be formally requested by the SCRRA by utilizing the Project Budget Reallocation Form (PBR) and approved in writing by the LACMTA before such modification can be implemented.			X		
8. SCRRA may loan or exchange LACMTA funds to or between one or more other member agencies, provided certain conditions are met.			X		
9. SCRRA shall make records available in such a manner that LACMTA auditors can complete the draft FY 2015-16 audit by February 28, 2017.		X			Finding #2016-001
10. SCRRA has submitted evidence of insurance to the satisfaction of LACMTA. SCRRA shall maintain, for the duration of the MOU, and/or shall require that SCRRA contractors maintain, levels of insurance coverage equivalent to existing coverage against claims for injuries to persons, or damages to property, which may arise from or in connection with SCRRA rail operations or construction by the SCRRA, its agents, representatives, employees or subcontractors on LACMTA property.	X				

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Findings #2016-001: Accounting Discipline**

**Criteria**

Article 7 of the Memorandum of Understanding (MOU) No. P0SCRRA26 states that, "SCRRA agrees to establish and maintain proper accounting procedures, appropriate internal controls, cash management records and documents in accordance with Generally Accepted Accounting Principles (GAAP), all applicable provisions of federal, state, and local laws, statutes, ordinances, rules, regulations, and procedural requirements including Federal Acquisition Regulations (FAR), and the applicable requirements and regulations of LACMTA....SCRRA shall make records available in such a manner that LACMTA auditors can complete the draft FY 2015/16 audit by February 28, 2017."

**Condition**

- The timing of the fieldwork and unavailability of certain requested schedules and information resulted in LACMTA auditor not being able to complete the examination by February 28, 2017.
- The schedule of unearned revenue account provided during our audit only shows the activities in the account during the year under audit. There is no breakdown of the details and description of the unearned revenue account balance of \$11,287,000 as of June 30, 2016.
- The schedule of self-insurance reserve account provided during our audit only shows the activities in the account during the year. LACMTA has requested SCRRA to provide a statement of changes in LACMTA's contribution to the self-insurance reserve that shows the surplus (deficit) from prior periods, activities for the current period and the accumulated surplus or ending self-insurance reserve balances.

**Cause**

The requirements for the audit which were fully discussed during the first entrance meeting held on October 20, 2016 were not properly communicated to the new General Accounting Manager.

Moreover, there is lack of institutional history and monitoring mechanism for account balances. Because of staff turnover in prior years, current accounting staff does not have the information necessary to prepare the detailed schedules of unearned revenue and self-insurance reserve accounts. Staff will have to review prior year accounting records in order to obtain the information and prepare the schedules in compliance with the requirements of LACMTA.

**Effect**

The audit report was not completed on the due date as prescribed in the Guidelines. Certain audit procedures required on the balances of unearned revenue and self-insurance reserve accounts were not adequately performed.

**Findings #2016-001: Accounting Discipline (Continued)**

**Recommendation**

The requirements for the audit including timeline were clarified and discussed during the exit meeting on April 13, 2017.

To provide timely completion of audit schedules, we strongly recommend that SCRRA establish more efficient and effective review and reconciliation policies and procedures as a customary part of the accounting and reporting process. The audit requirements for the LACMTA audit can be prepared in conjunction with the preparation for the requirements for the CAFR audit.

We also recommend that appropriate schedules of unearned revenue and self-insurance reserve accounts be maintained in accordance with LACMTA requirements. The schedule of unearned revenue should reflect the nature of the unearned revenue account balance (i.e. type of subsidy or grant, grant year, purpose, restriction as to use, etc.). Moreover, the statement of changes in LACMTA's contribution to the self-insurance reserve should reflect the appropriate information to properly reflect the ending balance of the self-insurance reserve account.

Further, SCRRA should consider developing an accounting and reporting mechanism in its accounting system similar to the fund accounting system. This system will be used to account each revenue source and type of subsidy and monitor related expenditures chargeable to each funding type and source.

**Management's Response**

**Audit Delays**

While the audit was not completed by the established deadline, there were three factors outside of our control that impacted our ability to do so: 1) New LACMTA auditors, 2) an expanded scope of audit, and 3) timing of fieldwork.

New LACMTA Auditors: One of the most influential factors in the delayed completion of the audit was LACMTA's use of a new audit firm this year. This required additional guidance for the new auditors to gain an understanding of our operations, policies and accounting systems. While we were very accommodating to this need, doing so did impact our ability to provide schedules as timely as we would have liked.

Expanded Scope of Audit: We feel that the scope of the audit was expanded from the written scope agreed to at the onset, primarily related to the breakdown of the accumulated unearned revenue balance. This changed the number and nature of schedules provided and increased the number of discussions held with the auditors.

Timing of Fieldwork: SCRRA Staff desired to complete this work in a timely manner and in doing so began on essentially the same day that our FY16 CAFR audit was completed. In that the SCRRA Finance Department was not fully staffed during this audit and had new staff members performing key roles in the audit process, this compacted timeframe left little time to prepare the requested schedules. This concern was communicated by SCRRA to LACMTA and their auditors at the beginning of the audit though we were committed to assist in meeting the deadline as closely as possible.

**Findings #2016-001: Accounting Discipline (Continued)**

**Management's Response (Continued)**

**Unearned Revenue/Self-Insurance**

While we do concur that LACMTA is entitled to request a schedule of unearned revenue which fully accounts for their accumulated balance, including self-insurance subsidies, we do not feel like it falls within the scope of this annual MOU audit. A few years ago, work was performed by an outside consultant to reconcile the Deferred Revenue Balance to date as of June 30, 2015. Upon review, it was noted that the work performed did not meet the requirements for a prior period adjustment to be processed in the FY16 Audit. This work will be re-scoped and completed within the calendar year.

**Recommendations**

The delays in providing schedules to the auditors were not caused by a lack of review and reconciliation policies or processes. Reconciliations were performed and schedules were created as soon as possible after the accounting records were finalized with the conclusion of the CAFR audit. The three factors mentioned above resulted in the inability to meet the established deadline.

SCRRA's current accounting system utilizes projects, tasks and awards to track activity by MOU. This provides adequate tracking of activity on a going forward basis. Detailed history, maintained in a legacy system, will remain a challenge until it becomes obsolete.

**Auditor Rejoinder:**

The requirements for the FY 2015/16 audit were fully discussed during the first entrance meeting held on October 20, 2016. However, these requirements were not properly communicated to the new General Accounting Manager, who joined SCRRA in December 2016 and took the role as the lead contact for SCRRA during the process of the audit.



**Findings #2016-002: Cost Allocation Formula**

**Criteria**

Article 9 of the Joint Exercise of Powers Agreement to Establish the SCRRA (as amended), states that the member agencies shall contribute the funds necessary to carry out the purposes and powers of the SCRRA, consistent with the SCRRA's adopted budget and any cost sharing formula adopted by the voting member agencies.

**Condition**

During our audit, we noted that the allocations of certain expenses (security, insurance, and maintenance) were based on train miles – lagged which do not include incremental miles. Incremental miles relates to the miles for additional train operations starting in the year 2008. Since 2008, as per adopted budget, incremental miles were included as part of train miles - lagged used to allocate some expenses for the member agencies.

**Cause**

Incremental miles were not considered as part of train miles - lagged to allocate expenses. Thus, a rate of 53.25% was used instead of 53.69% as a percentage of share in expenses for LACMTA.

**Effect**

The operating expense allocated to LACMTA was understated by \$195,404 thereby overstating the share in operating expenses of the other member agencies by the same amount.

**Recommendation**

We recommend that a formal review and approval on the allocation of expenses be performed by SCRRA to avoid errors in the subsidy allocation report.

**Management's Response**

We concur with this finding. The erroneous allocations will be corrected in Fiscal Year 2016-17 resulting in an additional charge to LACMTA of \$195,404 with a corresponding decrease amongst the other member agencies.

Review procedures over the annual allocation reconciliation process will be enhanced to minimize the risk of such an error in the future.

**EXIT CONFERENCE**

An exit conference was held on April 13, 2017 with SCRRA's representatives. Those in attendance were:

Vasquez & Company LLP representatives:

Cristy Canieda – Partner  
Marialyn Salvador – Audit Manager  
Emer Fabro – Audit Senior

LACMTA representatives:

Lauren Choi – Audit Senior Manager  
Rene Monteilh – Audit Senior  
Yvette Reeves – Program Manager

SCRRA representatives:

Tom Schamber – Manager, General Accounting  
Elisabeth Lazuardi – Senior Auditor, Internal Audit  
Andrew Hong – Senior Auditor, Internal Audit  
Jerri Stoyanoff – Grant Accountant II

Matters discussed:

Results of our examination disclosed instances of noncompliance with the Guidelines.

A copy of this report was forwarded to the following SCRRA representatives for comments prior to the issuance of the final report.

Tom Schamber – Manager, General Accounting  
Elisabeth Lazuardi – Senior Auditor, Internal Audit  
Michael Naoum III – Manager, Grants Administrator & Fiscal Management



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